



Middle East Escalation: Market Perspective

The conflict in the Middle East has escalated sharply, and markets have reacted in the usual way: equities weaker at the open, oil higher and gold firmer.

In simple terms, markets are responding to three main risks.

- **Inflation risk.** Higher oil and gas prices can feed into inflation expectations, particularly if disruption to supply persists.
- **Supply and shipping risk.** The immediate question is whether energy production and key shipping routes remain open and insurable. That affects both physical supply and transport costs.
- **Policy response.** Central banks will be watching the same data. If the shock proves inflationary, it creates tension between containing inflation and maintaining financial stability.

It is important to be clear about what we do not know. The timeline and political endgame are uncertain, and markets will react quickly to each headline. However, history is instructive. Markets have navigated wars, energy shocks and geopolitical crises many times before. Initial reactions can be sharp, but they are

rarely a good moment for investors to make large, emotional decisions.

What we are doing

We are monitoring developments closely and stress-testing the key transmission channels: energy prices, credit conditions, liquidity and any second-order effects that may emerge.

We are reviewing areas that tend to be most sensitive to these types of events, such as sectors reliant on cheap energy or discretionary consumer spending. We are also reassessing whether the long-term investment case for any holding has materially changed.

At the same time, periods like this often create dispersion within markets. Some areas, such as energy, commodities and defence, can benefit. Others, such as travel and certain consumer sectors, can struggle. This dispersion is one reason diversified portfolios tend to prove more resilient than concentrated exposures.

Why portfolios are built for moments like this

Diversification is not something added after volatility arrives. It is designed in advance. Client portfolios are spread across regions, sectors and thousands of underlying holdings.

While headlines dominate attention, most companies, cashflows and day-to-day economic activity are not directly affected by a single geopolitical event. Diversification does not eliminate short-term drawdowns, but it reduces the risk that any one shock defines the outcome.

Our approach from here

We will act where action is genuinely required. Not because prices are moving, but because the underlying evidence changes.

In periods like this, the most damaging mistakes usually come from reacting in haste: selling into fear, rotating too late or turning temporary volatility into permanent loss.

None of this diminishes the human reality. Any loss of life is tragic, and we all hope for a swift de-escalation and a return to stability.

In the meantime, please be assured that we are monitoring developments closely and managing portfolios calmly and deliberately. If you would like to discuss what this means for your clients, please reply to this email and we will arrange a call.

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